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Report to Rep. Benjamin S. Rosenthal, Chairman, House Committee on Government Operations: Commerce, Consumer and Monetary Affairs Subcommittee; by Elsie B. Staats, Comptroller General.

Contact: General Government Div.

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Congressional Relevance: House Committee on Government Operations: Commerce, Consumer and Monetary Affairs Subcommittee. Rep. Benjamin S. Rosenthal.

Review of the Department of the Treasury's plans for its upcoming foreign portfolio investment benchmark survey and the international capital forms used to collect data on balance of payments indicated that there are certain types of foreign investments that are not reported by either of these methods. These data elements include: limited partnership interests; fractional investments in oil, gas, and other investment property; and limited partnerships or fractional interests in crops and real estate. The feasibility of redesigning Treasury's data collection procedures could not be determined within the limited time available for this study. (SC)

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

7734

B-192111

SEP 20 1978

The Honorable Benjamin S. Rosenthal
Chairman, Subcommittee on Commerce,
Consumer and Monetary Affairs
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

By letter dated September 5, 1978, and subsequent discussion with your office, you requested that we study certain aspects of the information obtained by the Department of the Treasury about foreign portfolio investment in the United States.

We reviewed Treasury's plans for its upcoming foreign portfolio investment benchmark survey, and its international capital forms used to collect data on balance of payments. Briefly, we found that there are certain types of foreign investments that are not reported by either of these methods. However, in the limited time available for our study, we could not determine the feasibility of redesigning Treasury's data collection procedures.

Treasury would not discuss with us its reasons for including or excluding any data elements from its benchmark survey. Treasury officials said that they would discuss these matters during the September hearings for which they were still preparing and that they did not wish to take a formal position prior to their testimony. Your office agreed that we would not pursue this matter with Treasury.

Due to the time constraints in providing this letter to the Subcommittee, we have not obtained comments on its contents from the Department of the Treasury. As arranged with your office, unless you publicly announce its contents earlier, no further distribution of this report will be made until 10 days from the date of this letter.

GGD-78-114
(023001)

NEED FOR INFORMATION
ON FOREIGN INVESTMENT

The Congress has stated a national policy of gathering information on foreign investment in businesses. The Departments of the Treasury and Commerce have been given the responsibility to collect this information.

The Department of the Treasury periodically gathers data on foreign capital flows through Treasury International Capital (TIC) forms. These are prepared by American business firms and sent to the Federal Reserve, which analyzes and summarizes the data for Treasury. Treasury also is required by law to make once every 5 years a benchmark survey of foreign portfolio investment in the United States. Portfolio investment is that which is less than 10 percent of the voting securities of a corporation, or the equivalent in an unincorporated business. The Department of Commerce conducts a benchmark survey of foreign direct investment (10 percent and greater) in businesses.

SOME EXCLUDED DATA ELEMENTS
NOT COVERED BY TIC FORMS

Several types of investments not included in the forthcoming portfolio investment survey are also not reported in TIC forms. These data elements are:

- Limited partnership interests.
- Fractional interests in oil, gas, and other investment property.
- Limited partnership or fractional interests in crops and real estate.

According to an agency official, these investments amounted to about 1 percent of the equity interest reported in the 1974 portfolio investment survey.

EXCLUDED DATA ELEMENTS
REPORTED ON TIC FORMS

Several of the data elements excluded from the new survey are reported to the Treasury in the TIC forms. These elements, and the forms on which they are reported, are listed in enclosure I to this letter.

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In response to your question concerning the reporting of certain institutions, we found that mutual savings banks report liabilities to foreigners on TIC forms BL-1 and BQ-2, and savings and loan associations report such liabilities on form C-1. In addition, some information on ownership or control of such institutions is collected by the Federal Home Loan Bank Board (for savings and loans) and the Federal Deposit Insurance Corporation (for mutual savings banks). This information is from reports prepared by the regulated institutions to show changes in control involving significant amounts of voting rights or management influence. Overall information on the amount of foreign investment per se is not available.

THRESHOLD LIMITS OF TIC FORMS
EXCLUDING REPORTING OF INVESTMENT

Banks and other businesses whose liabilities to foreigners average less than \$2 million are not required to report on TIC B and C forms. Firms involved in purchases and sales of less than \$500,000 in any given month in securities transactions with foreigners are not required to fill out monthly form S.

Some foreign portfolio investment is probably unreported because of these exemptions. How much is missed could not be determined on the basis of our limited analysis. According to a subcommittee staff member, Treasury estimated that only 5 percent of the data would be unreported.

MODIFICATIONS OF TIC FORMS
TO CLARIFY DATA COLLECTED

The TIC forms could be redesigned to provide a more detailed breakdown of the types of liabilities reported. Neither the C-1 form nor its instructions specifically state, for example, that mortgages held by foreigners should be reported, and the form does not give a separate reporting category for mortgages. That information is included in column 4, "Liabilities with an Original Maturity of More Than One Year." But the form does not show how many mortgages were held by foreigners or the total dollar value thereof. The same can be said of other excluded categories, such as certificates of deposit of nonbanking institutions, bank and other long-term loans, and policies or accounts with mutual insurance companies and cooperatives.

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Counterbalancing the utility of redesigning the TIC forms and changing reporting requirements is the cost to do so, both to the Government and to the reporting entities. Our limited analysis did not include a cost-benefit study of this question.

MODIFICATION OF TIC FORMS TO
OBTAIN BROADER INFORMATION

The TIC forms were designed to gather information on international capital flows--i.e., balance of payments. They were not, therefore, intended to show the magnitude of total foreign investment, especially in securities, in the United States.

The Subcommittee asked us if the TIC forms could be modified to include information excluded by the portfolio survey and by the present forms. The forms could be so modified, but that would require some lead time and a redefinition of the purpose of the forms. Within the time constraints given for our study, we could not determine the propriety and feasibility of such a modification.

Sincerely yours,



Comptroller General
of the United States

Enclosure

Enclosure I

Enclosure I

Data Elements Excluded
From Portfolio Survey
But Included on
TIC Forms

<u>Data Element</u>	<u>Form</u>
Equity Interest:	
Policies or Accounts of Mutual Insurance Cos., Mutual Savings Banks, and Cooperatives	BL-1 C-1
Other Liabilities:	
Mortgages	BL-1 C-1
Certificates of Deposit ^{1/}	BL-1 C-1
Bank and Other Long-Term Loans	BL-1 C-1
Nonmarketable Long-Term Notes	Directly to Treas.-State- ment of Hold- ings from FRS

^{1/} Negotiable certificates of deposit issued by banks to foreigners are excluded from detailed reporting and instead are aggregated at the bottom of form BL-1. Those which are held directly by the foreign purchasers escape detailed reporting.